Nova Scotia Business Inc.

The Year in Review
2004 – 2005

SPRING 04

Team Canada Atlantic trade mission to Washington, D.C.

eCRM Networks, a provider of software services to contact centres, undergoes a capital expansion using a $287,500 loan from Nova Scotia Business Inc. (NSBI).

2004 Export Achievement Awards banquet.

Award winners:
FineLine Fuel Systems Inc. – New Exporter Award
Ultra Electronics Maritime Systems – Long Term Exporter Award
Northern Lights Christmas Tree Farms – Export Growth in New Markets
Welaptega Marine Limited – Export Growth Through Partnership Award
Interhabs Ltd. – Export Sales Growth Award
MacIsaac Kiltmakers – Canadian Market Development Award
Kenney & Ross Limited – Export Growth Through Product Development, Exporter of the Year

Nova Scotia Textiles secures working capital loans of up to $800,000 from NSBI as the company pursues new markets for its specialized flame-resistant products.

NSBI, together with our community and government partners, continues working to **attract buyers and potential tenants for the Avon Foods** plant in Berwick, which closed vegetable and fruit production.

Scotia Slate Products Limited increases production using a $260,000 loan from NSBI for equipment and capital.

SUMMER 04

Canada Day in Los Angeles trade mission.

ForeignExchange Translations, Inc. chooses Nova Scotia as its first Canadian location, hiring up to 60 people in Halifax over the next three years. The Boston-based company serves life sciences businesses by providing translation services to medical device manufacturers and pharmaceutical companies. NSBI invests a maximum $397,000 payroll rebate.

Federal Gypsum Company sets up in the Point Tupper Industrial Park to produce the province's first made-in-Nova Scotia gypsum wallboard. NSBI approves a $4.5-million loan and partners with the Cape Breton Growth Fund (CBGF), the Office of Economic Development (OED), and Enterprise Cape Breton Corporation (ECBC) for a combined $15.5 million for the project.

Crossley Carpets adds up to 156 new jobs at its Truro facility, with investments from OED and NSBI. As part of the expansion, NSBI invests a maximum $2.8-million payroll rebate.

Trade Mission to South Carolina.

Anadarko Petroleum (below), one of the largest independent oil and gas exploration and production companies in the world, begins Bear Head LNG — a liquefied natural gas (LNG) project in Point Tupper. This is a multi-billion-dollar project with great spinoff-industry potential. What started with a strong business case and a proactive community about four years ago, has progressed to a reality today with NSBI's help as project manager on behalf of the province.

F A L L 0 4

Working with **Manulife Financial** during its acquisition of Maritime Life, NSBI helps Manulife and **CGI Group Inc.**, Canada's largest independent information technology (IT) services firm, grow a mutually beneficial business relationship. **CGI** begins hiring 200 IT professionals from the former Maritime Life, and CGI's plans could see the company hire up to a maximum of 500 people and possibly expand CGI operations into rural Nova Scotia. NSBI invests a maximum $8.5 million performance-based payroll rebate.

Fish Expo WorkBoat Atlantic Trade Show in Rhode Island.

Nancy G. Tower, vice president customer operations, Nova Scotia Power Inc., joins the board of directors of NSBI.

Fish Expo WorkBoat Northwest Show in Vancouver and Seattle.

Upper Musquodoboit employer, **MacTara**, secures a new private-sector partner in a long-term strategy to be an aggressive market leader in wood products, with support from OED and a loan guarantee from NSBI that increases existing NSBI support by an additional $800,000.

Ocean Innovation Trade Mission to Victoria, B.C.

Rhode Island Fine Furnishing Trade Show.

W I N T E R 2 0 0 4 / 0 5

NSBI, ECBC, and the Atlantic Canada Opportunities Agency (ACOA) partner to invest in **Keata Pharma Inc./PharmEng** (below), a contract pharmaceutical manufacturing and consulting company that is setting up operations in North Sydney. NSBI is providing a $3.6-million payroll rebate based on the company creating up to 300 jobs within five years.

NSBI launches its **'Nearshore Campaign'**, promoting Nova Scotia as a world centre for information technology. Targeting U.S. companies, the campaign promotes the advantages of doing IT outsourcing and software development from Nova Scotia. The message finds a receptive audience among companies, especially in New England and Silicon Valley. IT outsourcing refers to the growing practice of companies contracting their IT services to outside technology firms that specialize in software application development and maintenance.

NSBI invests $2 million in equity for Sydney-based **Tech Link Entertainment**, enabling the company to commercialize cutting-edge responsible gaming technology.

Trade Mission to South Carolina.

NSBI actively promotes the **Bear Head LNG** procurement information session to Cape Breton businesses.

Capitalizing on the global market for secure alternatives to traditional power generation systems, Sydney-based **DynaGen Technologies Inc.** announces it is expanding research and development for its innovative controls and switches used in small-scale generators. NSBI provides an equity investment of $1 million, enabling DynaGen to create an additional 24 highly skilled jobs by 2008.

Trade Mission to Boston.

Jim Eisenhauer, president, ABCO Group Limited, Lunenburg, is appointed to the board of directors of NSBI.

Trade Mission to Trinidad and Tobago.

James W. Gogan, former president and CEO, Empire Company Limited, Stellarton, is re-appointed to the board for a second term.

Trade Mission to Northern Ireland.

In partnership with ACOA and Industry Canada, NSBI holds an **IT analyst event** for representatives of Nova Scotia IT services firms, the business community, universities, and federal and provincial governments. The partners learned about **Nova Scotia's potential as a premium location for nearshore IT outsourcing**, a trend that has the potential to change the face of our economy.

NSBI invests $650,000 in equity for Halifax-based **Diaphonics, Inc.**, a provider of security solutions based on voice verification. The company is expanding its sales and marketing efforts.

S P R I N G 0 5

NSBI is a partner in efforts underway to promote the **Nova Scotia Nominee Program**, a federal/provincial agreement to encourage immigrants to fill skills gaps.

One of Canada's leading North American transportation and logistics services companies, **Clarke Inc.**, announces it will relocate its head offices from Ontario to Nova Scotia, with the support of a $1.9-million payroll rebate from NSBI.

Environmental company, **Inland Technologies Inc.**, undergoes a capital expansion, with the support of a $2-million loan from NSBI.

NSBI, community, and government partners continue working to seek **future opportunities for the Venture Lighting** facility in Amherst. The Venture Lighting Committee co-ordinated options for Venture Lighting personnel in Amherst after the company announced its shut down.

NSBI aggressively promotes Nova Scotia's advantages to international IT companies, many in hotbeds like Northern California. As a result, Radha Basu, chairperson of **SupportSoft**, a Silicon Valley-based software firm, calls Halifax **"Silicon Valley East"**. SupportSoft expands in Nova Scotia with up to 55 new employees and the support of a $1.1-million payroll rebate investment from NSBI.

Also, Silicon Valley-based **Versata** transfers its software development lab from Bangalore, India, to Halifax. NSBI will provide a maximum $2.49-million payroll rebate, over seven years, based on Versata locating up to 85 new positions in Nova Scotia.

What it's all about: working with businesses and partners to strengthen economic benefits in Nova Scotia. The fiscal year in 2004 saw better and better unemployment rates for Nova Scotia, and that trend reached into 2005. **NSBI's work with businesses and partners in 2004/2005 helped companies** create and maintain up to **3,735 jobs**. Translation: payroll from those jobs will generate more than **$160 million annually**, and those workers will contribute more than **$20 million** in additional annual provincial income tax to Nova Scotia coffers.

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2004/2005 Annual Report

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" We judge ourselves based on the success of our clients."

— Stephen E. Lund, President and CEO

" It takes a solid business case to create a solid company foundation. From there, that company can take on new levels of sustainable growth and achievement."

— F. Thomas Stanfield, Chair of the Board

PROGRESSING PROSPERITY

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Optimistic — in a word this characterized the business outlook of Nova Scotia in 2004/2005. The third annual Nova Scotia Business Inc. (NSBI) business issues survey confirms it. More than 90 per cent of business owners and managers interviewed indicated they were optimistic about prospects for business growth.

And with good reason.

PROGRESSING PROSPERITY

As we look at the numbers from 2004/2005, we see a Nova Scotia economy on the rise. Real GDP growth of 2 per cent signifies a marked improvement over 2003's soft performance. Many factors contributed to this growth:

- International exports were up 10 per cent over the previous year, this in spite of a weak U.S. dollar
- Natural gas sales grew in value
- Manufacturing shipments rose 7.4 per cent
- Capital investment increased
- And Nova Scotia, along with British Columbia, led the country with 2.4 per cent employment growth. More people are working in Nova Scotia than at any period in our history. In 2004, every region in Nova Scotia saw an increase in employment. Halifax had one of the lowest unemployment rates of any urban centre in Canada.

In last year's annual report, we promised to build on the solid foundation we had laid in 2003/2004. We delivered on this promise in 2004/2005, creating opportunities and converting leads into wins for Nova Scotia.

RESULTS

NSBI's collective effort during 2004/2005 contributed to the expected maintenance and creation of up to 3,735 jobs. This will translate into approximately $163 million in total annual payroll and about $23 million in additional annual provincial taxes.

HIGHLIGHTS

NSBI's Nearshore Campaign successfully positioned Nova Scotia as a global location of choice for information technology (IT) outsourcing and application development companies. Versata and SupportSoft are but a few of the leaders that discovered the Nova Scotia advantage in 2004/2005, while companies like CGI and Keane worked alongside NSBI to promote it.

A national leader like Clarke Inc. relocated its headquarters to Nova Scotia from Toronto, bringing with it new skill sets and creating new, high-paying jobs.

Innovators like DynaGen Technologies Inc. took an idea from concept to commercialization, creating a new product for the world's distributed power market as well

MESSAGE FROM THE PRESIDENT AND CEO, AND THE CHAIR OF THE BOARD

Pictured: F. Thomas Stanfield and Stephen E. Lund.

as generating intellectual capital and jobs right here in Nova Scotia.

Windsor-based apple producer J.W. Mason made solid export connections in the South Carolina market and took steps toward turning those connections into real business expansion opportunities for the future.

The Bear Head LNG terminal took another step forward. This $650 million initiative will provide direct jobs and a stable energy supply to feed the province's economic growth over decades to come. Its spinoffs will fuel new industries, expand the pipeline and other energy infrastructure, and boost opportunities and employment — both in the Strait of Canso region and across Nova Scotia.

MEANS TO THIS END

Results like this don't just happen. They are the outcome of focus, strategy, and purposeful action.

Like that of our business advisory team. During 2004/2005, these six executives, living and working in communities across Nova Scotia, proactively carried out 700 face-to-face meetings with business owners and managers across the province, creating more than 324 qualified referrals to take these businesses to the next level of growth.

Like that of our business development executives. In 2004/2005, in conjunction with private and public-sector partners, they gathered intelligence and

Nova Scotia Premier John Hamm has cited two initiatives that have played a strong role in the province's job creation success: NSBI and Nova Scotia Community College.

" I am proud precisely because they encourage growth by providing more resources to the people creating jobs in Nova Scotia."

— Premier John Hamm

developed value propositions for key sectors, ultimately driving home 12 transactions with some of the world's top companies in IT, manufacturing, and energy. Up to 1,925 jobs will be created and maintained from payroll rebate investments alone. This translates into a return on investment to the province of 83.6 per cent.

Like that of our export development specialists. Over the last fiscal year, this group held 15 information sessions and led or facilitated a total of 16 trade missions and shows. Their work assisted 112 companies looking to expand their markets. An estimated $30.3 million in incremental sales were reported.

And like that of our seasoned financial services experts who created 11 client-focused solutions that provided capital to fit the needs of nine growth-oriented companies in urban and rural Nova Scotia. These solutions were distilled from 280 meetings with prospective clients, many of which were conducted during 33 advertised visits throughout the province.

Looking back at the year, it is clear that a number of factors contributed to these achievements.

OUR PARTNERS

Among them, partnerships. Working with the provincial Office of Economic Development, community-based business and economic development groups, our universities and colleges, industry associations, as well as a number of provincial and federal departments and agencies such as ACOA, ECBC, and International Trade Canada; NSBI was better able to establish and achieve its goals.

INTERNAL ALIGNMENTS

2004/2005 also saw the evolution of working relationships within NSBI.

Closer alignment of our specialists in export, business advisory and financial services, as well as in investment attraction created new strengths and opportunities.

Offering the benefit of their experience and their watchful eye, our board, led by 13 well-established and respected business leaders from across Nova Scotia, continued to guide NSBI's direction.

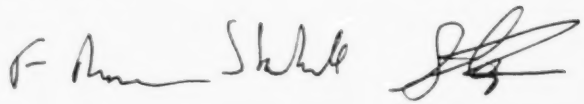
GOING FORWARD

With a broader perspective, enhanced expertise and pride in our performance of 2004/2005, we move into the year ahead. We do so with a clear understanding of the challenges we face to drive levels of prosperity in Nova Scotia higher.

Productivity is a major contributor to prosperity. Reports suggest that relative to competing jurisdictions, we could be doing better. NSBI will continue to encourage and support Nova Scotia companies to address productivity gaps.

While exporting to the United States remains an important growth strategy for many companies, emerging and alternative markets offer enhanced opportunities. NSBI will continue to work with companies to penetrate markets that offer the greatest potential for their products. We will also continue to develop programs and strategies that will help Nova Scotia's service sector capitalize on its export potential.

In 2005/2006, we will face these challenges head on by working with our partners and fuelled by optimism and a belief in Nova Scotia's strong prospects for higher levels of prosperity.



" Accountability to our shareholders while providing quality customer service is our main focus."

— Peter MacAskill, Director, Corporate Services

" Highly knowledgeable. Highly skilled. Highly motivated. Highly effective. I would put the NSBI investment attraction team up against any team out there."

— Robert Daigle, Director, Business Development

" When it comes to business development, NSBI has a very deep bench. In this market, you won't find individuals more skilled in export and financial services, investment attraction, or regional client interface."

— Martin Walker, Director, Business Growth

" This team has the dedication, experience and know-how to deliver solutions that benefit businesses and Nova Scotia's economy."

— Pat Ryan, Vice President, Financial Services

WHO WE ARE AND WHAT WE DO

2004/2005 SAW NSBI EVOLVE AND IMPROVE ITS BUSINESS PRACTICES WITH THE ADOPTION OF A NEW CUSTOMER RELATIONSHIP MANAGEMENT (CRM) SYSTEM. ALLOWING FOR REAL-TIME SHARING OF BUSINESS LEADS AND DEVELOPMENT OPPORTUNITIES, THIS SECURE, WEB-BASED TECHNOLOGY SUPPORTED EFFICIENCIES AND CO-OPERATION FOR BETTER CLIENT SERVICE AND GREATER BUSINESS GROWTH.

WHO WE ARE

NSBI is the first point of contact for growth-oriented businesses — those that are already operating in Nova Scotia as well as those in other jurisdictions that have recognized the benefits of locating all or part of their operations in our province.

We are governed by a board made up of 13 Nova Scotia business leaders. Our staff, 66 strong, is made up of talented, hard-working individuals with experience and collective expertise in financial and business advisory services, export development, and investment attraction.

WHAT WE DO

We are guided by NSBI's mission statement: "To deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia." Together, we work to turn this mission into action.

TOOLS FOR GROWTH

We provide businesses in Nova Scotia the tools to help them grow. Tools that offer flexible financial solutions to enhance new technology, expand capital assets, or adopt new processes. Tools that deliver sector intelligence and solid business leads in new or existing export markets.

ATTRACTING GROWTH-ORIENTED COMPANIES THAT FIT

We strive to attract growth-oriented companies that are a fit for Nova Scotia's natural and value-added advantages. Advantages like our highly educated workforce, our proximity to major markets, our business culture, and our geopolitical stability.

NSBI'S OBJECTIVES:

1. **To help existing companies in Nova Scotia expand business opportunities, with a particular focus on exporting**
2. **To attract leading edge and sustainable business investment to Nova Scotia**
3. **To provide access to capital for businesses**
4. **To increase recognition of Nova Scotia, its business climate, and capabilities**
5. **To develop an action-oriented organization that supports high performance, professionalism, and excellence**

You know you've got a good product when your clients work with you to sell it.

In 2004/2005, with the support of ACOA and International Trade Canada, NSBI launched its Nearshore Campaign. Raising awareness of Nova Scotia's enviable business case as a location of choice, the Campaign is designed to capitalize on the growing trend of outsourcing for IT application development and business processes — a trend that is particularly strong among U.S. companies.

Among the most powerful aspects of the Campaign are testimonials from world-class companies that are already enjoying the advantages of doing business in Nova Scotia. For example, with major contracts in the insurance and financial services industries, CGI is one of the largest independent IT services firms in the world. In 2004/2005, the company increased its Halifax operations by more than 350 employees and announced plans to bring their local complement up to 800 well-paid technicians. CGI officials have endorsed the location as a critical component in the company's growth.

In fact, last year CGI, along with other industry leaders such as Keane Canada, joined NSBI and other Nova Scotia officials at sessions in key U.S. markets to highlight Nova Scotia as an ideal location for Nearshore and/or software application development operations. Among its benefits: geographic proximity, cultural and business similarities, cost competitiveness, geopolitical security, and a highly skilled workforce.

"When it comes to Nearshore, Nova Scotia has been a leader in developing a clear vision and direction for capitalizing on its advantages," explains Al MacDonald, Senior Vice President of CGI. "NSBI has been at the centre of that. The accessibility and partnership demonstrated by all players, and orchestrated by NSBI, has served to show executives the full capability of the region."

AMONG THE 250 RESPONDENTS TO THE NSBI BUSINESS ISSUES SURVEY, 2004/2005:

- 86% OF BUSINESSES EXPECT TO INCREASE SALES
- 52% EXPECT TO INTRODUCE A NEW PRODUCT OR SERVICE
- 64% EXPECT TO HIRE ADDITIONAL STAFF
- 51% EXPECT TO INVEST IN FACILITIES/EQUIPMENT

Pictured: Al MacDonald, Senior Vice President, CGI

INVESTMENT ATTRACTION

" As well as attention to business within, a prosperous economy needs outside investment in order to grow. Investment is a big part of why Nova Scotia achieved top ranking in job creation last year."

— Bob Daigle, Director, Business Development

In the face of fierce competition from other jurisdictions with bigger budgets, vying for business dollars in the global marketplace, 2004/2005 saw Nova Scotia build on its reputation as a serious and successful contender in attracting new investment from some of the world's top companies.

As a top performing investment attraction organization in Canada, NSBI continued its lead in bringing new business to the province. Working with public, academic, and private-sector partners, we enhanced our expertise and our value proposition in key areas, and improved the alignment of our approaches and impact of our resources.

In 2004/2005, some of the province's "wins", key companies that have discovered firsthand the value of investing in Nova Scotia, joined us in promoting the Nova Scotia advantage. Their testimonials added vigour and credibility to the central message of our Nearshore Campaign: Nova Scotia is indeed the location of choice for business.

THE APPROACH

Our approach was focused, co-ordinated, and aggressive. 2004/2005 saw NSBI increase its concentration and hone its value proposition for key sectors such as information technology (IT), energy, life sciences, and advanced manufacturing. NSBI's executives leveraged the province's strengths and promoted the Nova Scotia advantage to these sectors.

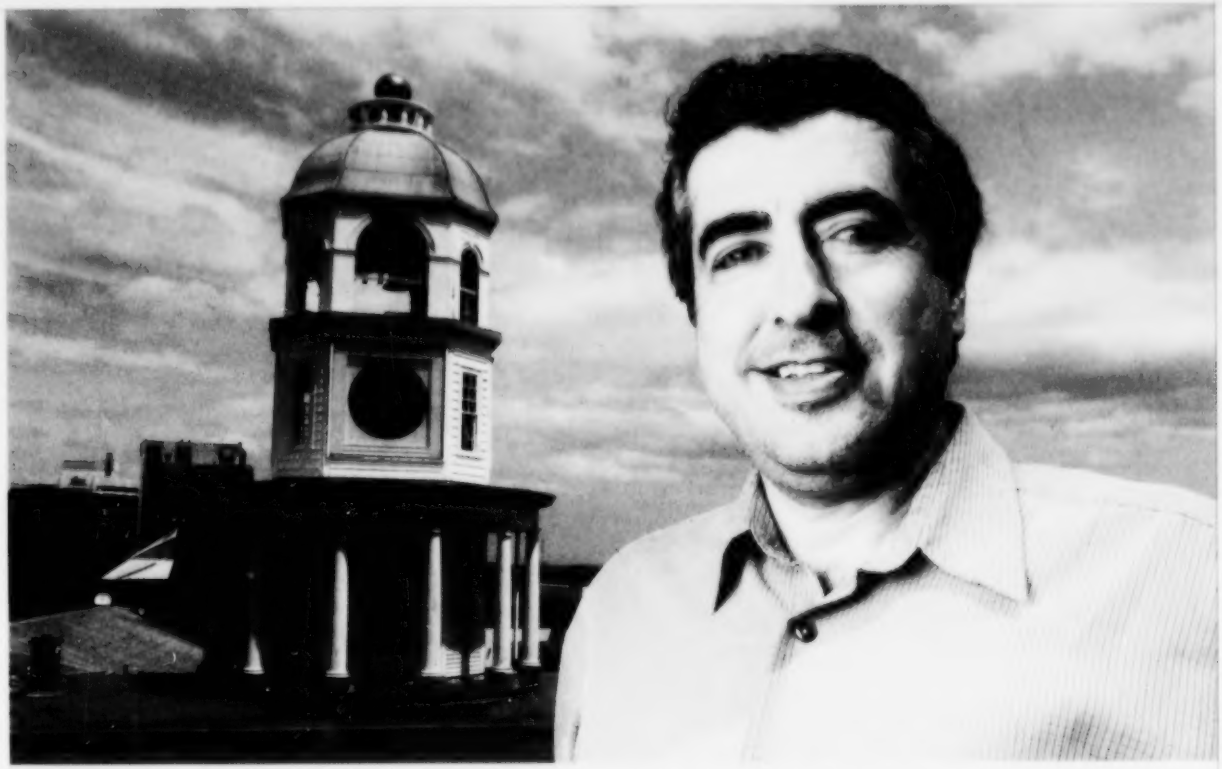
THE TEAM

In 2004/2005, NSBI deepened its investment attraction capacity and expertise by enhancing its partnerships, recruiting specialists in areas such as aerospace and defence, nutraceuticals, agrifood, and business intelligence. And, increasingly, by drawing on the strengths of all business lines within NSBI's ranks.

Tapping into our financial services expertise, we assessed risks and refined our business-case analysis to make offers that are the right fit for Nova Scotia. Members of our business advisory team and community partners provided regional intelligence and contacts to ensure a fit between prospective investors and local requirements. Stronger alignments between NSBI officials, members of the business and economic development communities and all levels of government worked together to offer a unified welcome and even stronger value proposition to companies considering Nova Scotia as an investment location.

RESULTS

In 2004/2005, 12 world-class companies signed contracts to establish or expand operations in Nova Scotia. With the use of growth tools such as payroll rebates, term loans, and loans supported by partners like the Office of Economic Development, NSBI played a key role in transactions representing total commitments of $22.7 million.



George Armoyan knows firsthand that Nova Scotia is a great place to live and work. He came to the province from Boston in 1977 to study engineering and started his first business just months after graduation. From there, along with members of his family, he built that business into one of the largest development companies in the province. He now leads a diversified set of national holdings.

In 2003, Armoyan's appointment to the role of President and CEO of Clarke Inc., then an Ontario-based national leader in transportation, necessitated a move to Toronto for Armoyan. Immediately recognizing the Nova Scotia advantage for a business like Clarke, he set about to work on a business case for relocating the company's head office.

"Competitive costs, excellent infrastructure, a deep and highly skilled labour pool, and quality of life second to none; Halifax has all of that," he says. According to Armoyan, the $1.9 million payroll rebate, approved by NSBI early in 2005, provided shareholders of the publicly traded company with added proof that Halifax was the optimal place for long-term growth.

The result: the relocation of Clarke's national headquarters from the Toronto area to Halifax with the commitment to create up to 95 jobs including high-salaried executive positions.

And that is just the beginning, says Armoyan. "As our subsidiaries grow, we expect to consolidate head office operations in Nova Scotia."

"In the long run, it makes a lot of business sense."

THE NOVA SCOTIA ADVANTAGE

MARKET ACCESS AND SECURITY:

- 1 TO 2 HOUR FLIGHT FROM NORTHEAST U.S.
- TIME ZONE HALFWAY BETWEEN SILICON VALLEY AND EUROPE
- GLOBALLY LINKED TRANSPORTATION SYSTEMS
- GEOPOLITICAL STABILITY

RESEARCH AND DEVELOPMENT (R&D):

- WORLD-CLASS RESEARCH FACILITIES
- CANADA HAS MOST ATTRACTIVE R&D TAX CREDITS WORLDWIDE

COST COMPETITIVE:

- LABOUR COSTS LOWEST AMONG G-7 COUNTRIES
- TRAVEL & COMMUNICATION COSTS LOWER THAN DISTANT OFFSHORE COUNTRIES

SIMILARITIES WITH U.S.:

- LANGUAGE
- BUSINESS PROCESSES & WORKSTYLES

CRITICAL MASS:

- HIGHLY SKILLED AND EDUCATED LABOUR POOL

Pictured: George Armoyan, President and CEO, Clarke Inc.

NEW INVESTMENT IN 2004/2005

BEAR HEAD LNG *****
CGI CANADA *
C-VISION ****
CLARKE *
CROSSLEY CARPET MILL **
FEDERAL GYPSUM ***
FOREIGNEXCHANGE TRANSLATIONS *
FRITO-LAY ****
LASSONDE/GREAT VALLEY ****
PHARMENG *
SUPPORTSOFT *
VERSATA *

(*) ROBI PAYROLL REBATE
(**) ROBI PAYROLL REBATE + OED LOAN
(***) ROBI TERM LOAN
(****) ROBI PROJECT MANAGEMENT + OED LOAN
(*****) ROBI PROJECT MANAGEMENT

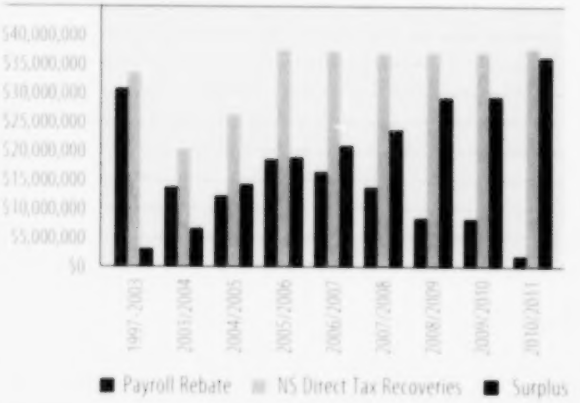
THESE INVESTMENTS ARE EXPECTED TO CREATE AND MAINTAIN UP TO 2,847 JOBS OVER THE LIFE OF THE AGREEMENTS.

Over the lifespan of the agreements, these 12 projects will create and maintain between 1,973 and 2,847 jobs. At an average salary range of $53,000, these new, well-paying positions significantly exceed the average salary in the province. This job creation touches communities throughout Nova Scotia, with approximately 60 per cent of job creation in areas other than Halifax Regional Municipality (HRM).

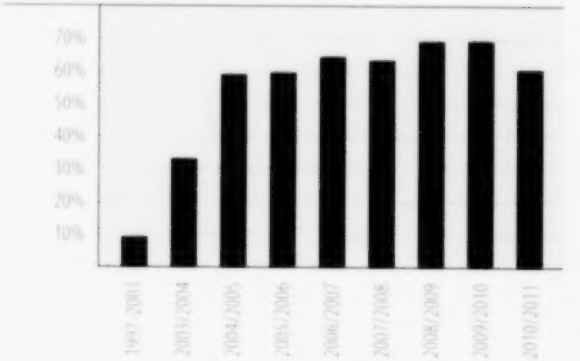
WHAT'S AHEAD

In 2005/2006, we will continue to leverage our successes and increase our capacity in areas where we have the most potential. In IT attraction, emphasis will be placed on business process outsourcing, application development, and shared services. In life sciences, we will continue to identify and develop opportunities in nutraceuticals, medical devices, and agrifood. In energy, we will explore and develop downstream opportunities and work to maximize the regional and provincial spinoffs from the Bear Head LNG project. In manufacturing, we will continue pursuing industries that will complement our resource-based sectors and will capitalize on our province's military and marine security expertise to develop new opportunities in the aerospace and defence sector.

STRATEGIC INVESTMENTS CREATE A HEALTHY SURPLUS



STRATEGIC INVESTMENT FUND – ROI ANALYSIS 1997-2011



What do you get when you combine natural geographic advantages and a favourable energy market with determination, vision and partnership?

The conditions that are driving an initiative to create a $650 million liquefied natural gas (LNG) terminal in Nova Scotia's Strait of Canso area.

The Bear Head LNG project (named for its location at Bear Head, Richmond County) will secure a stable supply of energy, create 30-40 full-time positions and hundreds of construction jobs while generating spinoff industries and opportunities for surrounding communities and for the province.

It began in earnest in 2002. Inspired by the increasing demand for natural gas across North America, executives from Calgary-based Access Northeast Energy Inc. (ANEI) believed the timing was right to match favourable energy market conditions with the strategic advantages of doing business in Nova Scotia. Their interest led to discussions with NSBI and local Strait Region officials such as Gail Johnson, then-warden of Richmond County; and Billy Joe MacLean, mayor of Port Hawkesbury and chair of the Strait Regional Council of Mayors and Wardens.

"The underlying elements for the success of the project were always there," explains Mayor MacLean. "Demand and prices for natural gas were high, and production costs were falling. The Bear Head site had the advantages of access to an ice-free, deep-water port and no residential development for miles."

Ultimately, however, says MacLean, it took partnership to drive the project forward. As the initiative took shape, other members of the local and regional business community, such as the Strait of Canso SuperPort Corporation came on board, as did the provincial and federal governments.

"Without buy-in at all levels of the community and government, the project would have died," said MacLean, adding that the due diligence applied by NSBI's business case study helped to convince many of the project's potential and its feasibility.

2004/2005 saw the project take a major step forward when a new partner joined the team. Anadarko, one of the world's largest independent exploration and production companies purchased ANEI. The community and other partners, including NSBI, continue to explore options to grow businesses that can benefit from or work with Bear Head LNG.

"The spinoffs will be wide-ranging," added Richie Cotton, Warden of Richmond County since 2004. "They'll strengthen existing industries and work as a catalyst to create others. This is just the beginning of a whole new level of growth for the region."

Pictured: Billy Joe MacLean, Mayor of Port Hawkesbury and Chair of the Strait Regional Council of Mayors and Wardens; Steve Sampson, Deputy-Warden Richmond County; and Randy Kopjar, Vice President of Gas Commercialization, Anadarko Canada Corp.

BUSINESS GROWTH

" We're always looking for opportunities to add value to our relationships with our clients."

— Martin Walker, Director, Business Growth

" Under one roof, NSBI is able to offer more financial solutions than any other entity in the province."

— Pat Ryan, Vice President, Financial Services

Strong, globally minded companies drive Nova Scotia's economy. Through customized, client-focused solutions, NSBI strives to help these companies achieve new levels of prosperity and sustainable growth.

PEOPLE PLUS TOOLS = SOLUTIONS

NSBI's team help businesses drive their growth to the next level. 2004/2005 saw NSBI continue to seek out and develop opportunities to use the following tools for the benefit of companies with proven track records and/or solid business cases for growth.

From term debt to venture capital, NSBI offers a wide-range of flexible financial solutions. With them, our financial services experts work with companies to determine the right mix for business growth. Our export development programs and services offer Nova Scotia companies the connections they need to increase their exports in new or existing export markets.

Business advisory services in the regions offer a voice to and from the business communities across the province, ensuring that NSBI and government policy is informed by on-the-ground intelligence and providing businesses across Nova Scotia with information about programs and services.

COLLABORATION

For NSBI, 2004/2005 was a year of strengthened alliances and a maturing of working relationships, both inside our ranks and with partners.

NSBI's business growth unit, created in late 2003, saw its first full year of operations in 2004/2005. Under one director, our business advisory and export development specialists found new ways to collaborate, increasing trade expertise available to businesses in the regions and increasing rural business participation in export programs.

Closer alignment between our business advisory and our financial services executives served to enhance NSBI's working relationships with key community-based partners, including the Regional Development Authorities (RDAs) and the Community Business Development Corporations (CBDCs).

RESULTS

FINANCIAL SERVICES

In a challenging market, NSBI's financial services professionals completed several transactions with significant positive impacts. During 2004/2005, NSBI's financial solutions — totalling $12,297,500 — worked to strengthen businesses in Nova Scotia's foundation

More than 50 years ago, J.W. Mason planted an orchard. From it has grown a family-owned business that employs more than 60 people year round and several hundred people in peak seasons.

Over the years, the Windsor-based company has diversified its product line to include ciders and honey. It has improved its productivity through better transportation and new storage technologies. Production enhancements to its own orchards and purchasing agreements with local farmers have boosted and guaranteed its supply. And the company's client base has expanded to include some of the biggest grocery chains in the Atlantic Region.

With a desire to take the company to the next level and certainty that they could guarantee on-time delivery of quality product over any distance, company owners (grandsons of J.W.) decided that export was the logical progression.

"We knew that as a company we were ready to move into other markets," explains Steve Wells, Director and Part Owner. "We just hadn't determined the right areas to target."

That's when Wells heard of an NSBI-led information session about exporting to South Carolina. Attending, he says, "provided us with enough information to know we wanted to pursue the South Carolina market further."

In February of 2004, Wells continued the pursuit by taking part in a four-day mission to South Carolina. Led by NSBI in conjunction with the Atlantic Canada World Trade Centre and the South Carolina World Trade Center, the mission offered him the opportunity to meet face-to-face with key representatives of several major grocery chains and warehousing distribution companies in the region.

"NSBI did some of the critical homework for us. They helped us to meet the right people in the market," says Wells.

"I would say that we have established at least three solid relationships through those meetings. We're now doing follow up that could lead to significant sales."

EXPORT TYPOLOGY

What makes a successful exporter? That's the question asked and answered by the Export Typology project. Sponsored by ACOA, directed by NSBI, and carried out by researchers at Saint Mary's University's Sobey School of Business, the project was designed to determine the personal characteristics that lead to export success.

The outcome is a guide which identifies and explains six key competencies for exporters:

1) strategic development and growth
2) awareness of global opportunity
3) commitment to export venture
4) business and financial management skills
5) marketing and customer management skills
6) mobilizes support and acquires resources

The Export Typology Guide was introduced to business and export development officers in 2004/2005 to help them in their work enabling companies to grow through export.

Pictured: Steve Wells, Director and Part Owner, J.W. Mason

FINANCIAL SERVICES CONTRACTS:

(OFFERS ACCEPTED)	
NOVA SCOTIA TEXTILES LTD.	$800,000
eCRM NETWORKS INC.	$287,500
SCOTIA SLATE PRODUCTS LTD.	$260,000
FEDERAL GYPSUM COMPANY	$4,500,000
INLAND TECHNOLOGIES INC.	$2,000,000
DYNAGEN TECHNOLOGIES INC.	$1,000,000
TECH LINK	$2,000,000
MACTARA LTD.	$800,000
DIAPHONICS INC.	$650,000
SUB-TOTAL	$12,297,500
OTHER:	
OFFERS OF $300,000 EACH NOT ACCEPTED BY TWO COMPANIES	
SUB-TOTAL	$600,000
TOTAL:	$12,897,500

TECH LINK INTERNATIONAL ENTERTAINMENT LTD.

industries and enabled leading-edge firms to enhance new technologies. As well, NSBI's financial services team continued to manage its large, ongoing portfolio of existing commitments valued at approximately $174,000,000.

In total, NSBI's equity investments and term loans created or maintained 552 jobs and leveraged an additional $27,261,000 from public and private-sector investors. This means that every NSBI dollar invested under its financial services options, served to leverage an additional $2.30 in investment from other sources.

BUSINESS ADVISORY SERVICES

During the past year, the business advisory team provided on-the-ground presence across the province. Maintaining a two-way flow of information with the business community in their respective jurisdictions, NSBI's regionally based executives organized or took part in more than 700 face-to-face meetings with owners and managers. These meetings resulted in 184 referrals to programs and services of partners as well as seven business advisory-led projects that ultimately generated 79 new jobs in rural Nova Scotia.

Working with their export development colleagues as part of the business growth unit, business advisory executives increased their ability to recognize export potential among clients. In 2004/2005, they helped 140 rurally based companies to access NSBI's financial and export development services.

EXPORT DEVELOPMENT

During the year, the export development team continued to help Nova Scotia companies obtain meetings with pre-qualified prospects (buyers, distributors, or potential partners) in export markets around the world. These connections are focused on our companies penetrating new markets or expanding their export growth in existing ones.

Through Exporting 101 sessions, NSBI's trade officers provided exporting information to a wide-range of companies from Yarmouth to Cheticamp. Topics ranged from the basics of exporting to the complexities of product pricing in foreign jurisdictions.

Designed by NSBI to translate the export potential of the province's service-sector industries into results, the Service Export Program (SEP) was launched in December 2004 with the support of the Office of Economic Development. The program assists service-sector exporters to close deals in new markets. From December 2004 to March 2005, 24 companies enrolled in the SEP and many accessed non-traditional markets such as China, Sri Lanka, and Denmark.

During 2004/2005, NSBI worked with 112 companies and sales of $30.3 million dollars were reported by NSBI's export program participants. This roughly translated into 330 direct jobs from new business activity; it is estimated that one job is created for every $90,000 in incremental exports.

MOVING FORWARD

To continue the momentum of business growth in Nova Scotia, NSBI will work in 2005/2006 with partners to assess and improve the export capacity and capability of Nova Scotia businesses. Working in collaboration with the business growth unit, members of the financial services team will continue to develop flexible financial solutions that will put needed capital in the hands of growth-oriented, export-focused companies.

Ideas come naturally to Paul Wareham. As a boy growing up in Sydney, he regularly tinkered with ham radios and invented new and better antennas to improve reception.

While working on his masters degree in engineering at Queen's University in Kingston, Ontario, he designed a cost-efficient back up system for generators and engines. The resulting technology, Automatic Engine Controller, was the catalyst for the inaugural product of Wareham's company, DynaGen Technologies Inc.

In 1997, Wareham moved his company to his hometown of Sydney. Since then DynaGen has created a full spectrum of products for the distributed power market (any electrical power generation close to where the energy is consumed), a market estimated at $1 billion in the U.S. alone. Today, DynaGen employs 31 people and anticipates growing its highly skilled workforce.

Ideas for distributed power generation solutions continue to flow. But, in business, even the most marketable ideas require financing to make them a reality.

According to Wareham, a $1 million equity deal signed with NSBI in 2004 will provide DynaGen with the capital it needs to take inPower – a back up generator for the residential market – from the patent stage to market. The move is expected to generate 28 additional jobs at DynaGen by 2008.

"By becoming an equity partner in this venture, NSBI is providing us the fuel to move our company and our product line forward."

Pictured: Paul Wareham, President and CEO, DynaGen Technologies Inc.

CORPORATE GOVERNANCE

IN THE SPIRIT OF TRANSPARENCY AND IN THE INTEREST OF KEEPING ABREAST OF THE ISSUES OF BUSINESS ACROSS THE PROVINCE, THE BOARD CONTINUED ITS PRACTICE OF HOSTING AN ANNUAL RECEPTION FOR BUSINESS. IN 2004/2005, THE STELLARTON RECEPTION DREW APPROXIMATELY 70 MEMBERS OF THE LOCAL BUSINESS COMMUNITY.

Comprised of 13 respected business leaders from communities across Nova Scotia, the NSBI Board provides guidance and governance over NSBI's business activities.

In 2004/2005, the Board met 10 times to further the following:

- Oversee the corporate governance framework
- Review and approve quarterly and annual financial reports
- Oversee the strategic planning process
- Monitor the annual business planning process
- Identify and monitor major risks facing the corporation
- Monitor the integrity of the corporation's internal control systems
- Approve financial transactions within board limits

CHAIR

F. Thomas Stanfield
President, Stanfield's Limited
Truro

VICE-CHAIR

Thomas A. Rose
Chair and CEO, TAR Investments Limited
Halifax

MEMBERS

Dr. Sheila A. Brown
President and Vice-Chancellor,
Mount Saint Vincent University
Halifax

James Eisenhauer
President, ABCO Group Limited
Lunenburg

Lawrence K. Evans
Partner, Evans MacIsaac & MacMillan
Port Hawkesbury

James W. Gogan
Former President and CEO, Empire Company Limited
Stellarton

Maurice Guitton
President, EADS Composites Atlantic Limited
Lunenburg

Doug Hall
Former Managing Director, RBC Dominion Securities
Halifax

Paul Kent
Senior Vice President, Aliant Inc., & Chief Operating Officer, xwave
Halifax

Larry LeBlanc
President & CEO, Renewable Energy Services Limited
Windsor

Alastair MacLeod
President, Nova Scotia Chambers of Commerce
Sydney

James A. Sapp
President, J.A.S. Investments Limited
Liverpool

Paul Taylor
CEO, Nova Scotia Office of Economic Development
Halifax

Nancy Tower
Vice President Customer Operations, Nova Scotia Power
Halifax

OFFICERS

Stephen Lund, President and CEO
Pat Ryan, Vice President, Financial Services

COMMITTEES

The **Audit**, **Human Resource Governance** and **Investment** committees serve to assist the Board in carrying out its responsibilities.

The **Audit Committee** oversees NSBI's financial reporting, assesses its internal controls and risk environment, and reviews the report prepared by the corporation's external auditor.

Chair: Lawrence Evans; James Sapp (retired November 2004). Members: Alastair MacLeod and Nancy Tower.

The **Human Resource Governance Committee** ensures appropriate human resource-management policies are in place, managing the recruitment process for new board members, as well as developing and overseeing NSBI's corporate governance principles.

Chair: Dr. Sheila Brown. Members: Maurice Guitton and Paul Kent.

The **Investment Committee** oversees NSBI's investment framework and policies, monitors the performance of the corporation's investment portfolio, and approves financial transactions within its authorization limit or recommends transactions to the full Board for approval.

Chair: Thomas Rose. Members: James Eisenhauer, Doug Hall, Larry LeBlanc, and James Gogan.

CORPORATE SCORECARD

Promote the growth of new and existing businesses in Nova Scotia by enabling them to succeed with business opportunities in both local and export markets

INDICATOR	MEASURE	TARGET 2004/2005	FINAL 2004/2005	TARGET 2005/2006
Nova Scotia companies expand business within Nova Scotia	# of qualified referrals for export development, investment or financing	144	140 to NSBI 184 to other agencies	144
Volume and diversity of exports	# of companies introduced to new markets/further advanced in existing markets	100 clients	79 clients	100 clients

Attract leading edge, sustainable business investment to Nova Scotia

FDI in Nova Scotia	# of companies that relocate part or all of their operations in Nova Scotia	10	12	15
Economic benefit to Nova Scotia	Average gross salary of new jobs created through business attraction and reinvestment	$30,000	$53,200	$32,500
Fiscally prudent financing	Average portfolio return on investments utilizing Strategic Investment Fund	40-50%	83.6%	40-50%

Provide access to capital for new/existing businesses in Nova Scotia, with the intent of enhancing value-added growth for the province's economy

INDICATOR	MEASURE	TARGET 2004/2005	FINAL 2004/2005	TARGET 2005/2006
Incremental value investment projects	# of financings with new/existing companies (80% in strategic growth sectors) utilizing Nova Scotia Business Fund	32 financings	13 financings	20 financings
Flexible financing arrangements	% Nova Scotia Business Fund used for equity/working capital deals	Range between 20-25%	36%	Range between 20-25%
Partner for financing solutions	Leverage ratio of Partner : NSBI	Ratio of 1:1	Ratio of 2.3 to 1	Ratio of 1:1

Increase the visibility and recognition of Nova Scotia — its business climate, advantages, and capabilities — at home and abroad.

External marketplace awareness of Nova Scotia and its business advantages	# of external inquiries on Nova Scotia business capabilities	300	380	(No target set. Adjustment made to reflect NSBI's evolving objectives)
Awareness of NSBI's role in Nova Scotia	Increase over base measure of awareness of NSBI	4 percentage point increase over benchmark *	5 percentage point increase over benchmark (29%)	6 percentage point increase over benchmark

* Awareness targets for business have been adjusted to increase 2 percentage points annually since benchmark awareness level was established in 2002/2003. At that point, benchmark awareness was 24% for business. Thus for 2004/2005 the target was 28%. In 2005/2006 the target is 30%.

Develop an action-oriented, client-focused organizational culture that encourages, empowers and supports high-performance, entrepreneurial-thinking, and professionalism.

INDICATOR	MEASURE	TARGET 2004/2005	FINAL 2004/2005	TARGET 2005/2006
Customer service	% increase of clients who are satisfied with NSBI's services	90%	91%	(No target set. Adjustment made to reflect NSBI's evolving objectives)
Employee training and development	% of employees participating in training and development programs	80% of employees	85% of employees	80% of employees
Business culture — deliver results within cost management structure	Operate within annual budget	$7.316 million**	$7.282M	$8.98 million

** Initial operating budget was $7.2 million as per the 2004/2005 Business Plan. This was subsequentially increased by $116,000 to reflect a salary adjustment, thereby bringing the operating budget to $7.316 million. Actual operating expense were $7.282 million for 2004/2005.

Overall performance

Jobs within Nova Scotia	# of jobs created and maintained by clients	3,700 created and maintained	Min – 2861 Max – 3735	3,700 created and maintained
Export sales	Incremental export sales of NSBI clients	New measure	$30.3 million	$25 million
Provincial tax revenues	Incremental provincial tax revenues from NSBI clients	No target set	$23 million	No target set. Outcomes based on job creation and average salaries
Total payroll	Total payroll impact of NSBI clients	$111 million	$163.2 million	$120 million

FINANCIAL STATEMENTS OF NOVA SCOTIA BUSINESS INCORPORATED

YEAR ENDED MARCH 31, 2005

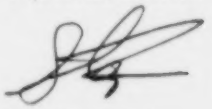
Management's Responsibility for Financial Reporting

The accompanying financial statements of Nova Scotia Business Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles and, if necessary, contain certain items that reflect best estimates and judgment of management. The integrity and objectivity of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the Annual Report is consistent with the financial statements.

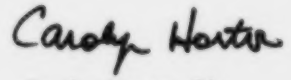
In support of its responsibility, management has developed and maintains financial and management control systems and practices to provide reasonable assurance that transactions are properly authorized and recorded, that financial information is reliable, that the assets are safeguarded and liabilities recognized, and that the operations are carried out effectively.

The Board of Directors' Audit Committee, comprised of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, compliance & risk management, and the independent auditors to review internal accounting controls, audit results, accounting principles and practices, and to review and approve the financial statements.

These financial statements have been audited by the corporation's external auditors, KPMG LLP, and their report is presented herein.



Stephen Lund
President and
Chief Executive Officer



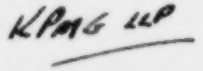
Carolyn Horton, CA
Controller

Auditors' Report to the Directors of Nova Scotia Business Incorporated

We have audited the balance sheet of Nova Scotia Business Incorporated as at March 31, 2005 and the statements of revenue, expenditures and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Halifax, Canada
May 27, 2005

BALANCE SHEET

(IN THOUSANDS OF DOLLARS)

MARCH 31, 2005,
WITH COMPARATIVE FIGURES
FOR 2004

	2005	2004
ASSETS		
Current assets:		
Cash	**$ 15,118**	$ 13,043
Accrued interest receivable	**521**	560
Due from the Province of Nova Scotia	**11,576**	9,236
Current portion of loans receivable (note 3)	**10,892**	12,780
Other receivables	**572**	688
	38,679	36,307
Nova Scotia Business Fund assets:		
Loans receivable (note 3 and 7)	**95,177**	99,759
Equity investments (note 4 and 7)	**10,382**	9,689
Industrial Parks and malls (note 5)	**4,393**	4,823
Other assets (note 6 and 7)	**110**	111
	110,062	114,382
	$ 148,741	$ 150,689
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 13,687**	$ 18,193
Provision for payment of guarantees (note 7)	**2,077**	1,990
Principal due within one year to the Province of Nova Scotia (note 8)	**11,736**	12,481
	27,500	32,664
Long-term debt:		
Due to the Province of Nova Scotia (note 8)	**104,810**	104,756
Shareholder's equity:		
Share capital and retained earnings (note 9)	**16,431**	13,269
Commitments (note 10)		
Contingencies (note 11)		
	$ 148,741	$ 150,689

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

On behalf of the Board:

Director

Director

STATEMENT OF REVENUE, EXPENDITURES, AND RETAINED EARNINGS

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2005, WITH COMPARATIVE FIGURES FOR 2004

	2005	2004
REVENUE:		
Provincial grants		
Operating grant	**$ 7,200**	$ 6,815
Strategic investment grant	**11,169**	17,184
Valuation allowance grant	**1,600**	2,000
Interest on loans receivable	**8,719**	9,165
Other investment income	**322**	2,083
Gain on sale of land/property	**568**	764
Miscellaneous	**1,106**	464
	30,684	38,475
EXPENSES:		
Schedule of Operating Expenses	**7,282**	6,815
Strategic investments	**11,169**	17,184
Provision for credit losses and payment of guarantee	**1,263**	2,001
Schedule of Nova Scotia Business Fund Expenses	**7,808**	9,447
	27,522	35,447
Excess of revenue over expenditures	**3,162**	3,028
Retained earnings, beginning of year	**13,269**	10,241
Retained earnings, end of year	**$ 16,431**	$ 13,269

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2005, WITH COMPARATIVE FIGURES FOR 2004

	2005	2004
CASH PROVIDED BY (USED IN):		
OPERATIONS:		
Excess of revenue over expenditures	**$ 3,162**	$ 3,028
Items not involving cash:		
Amortization	**229**	239
Provision for credit losses and payments of guarantees	**1,263**	2,001
Capitalized interest on loans receivable	**(1,953)**	(1,482)
Gain on sale of land/property	**(568)**	(764)
Change in non-cash operating working capital:		
Decrease in accrued interest receivable	**39**	232
Increase in due from the Province of Nova Scotia	**(2,340)**	(582)
Decrease (increase) in other receivables	**116**	(126)
Increase (decrease) in accounts payable and accrued liabilities	**(4,506)**	7,288
	(4,558)	9,834
FINANCING:		
New borrowings from the Province of Nova Scotia	**11,697**	3,360
Principal repayments to the Province of Nova Scotia	**(12,388)**	(13,522)
	(691)	(10,162)
INVESTMENTS:		
Loan advances	**(3,494)**	(9,588)
Principal received on loans	**13,399**	16,088
Redemption of shares	**104**	105
Issue of convertible debentures	**(3,475)**	(2,900)
Proceeds from disposal of Industrial Parks	**939**	764
Capital additions	**(170)**	(348)
Other	**21**	7
	7,324	4,128
Increase in cash	**2,075**	3,800
Cash, beginning of year	**13,043**	9,243
Cash, end of year	**$ 15,118**	$ 13,043

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

NOTES TO FINANCIAL STATEMENTS

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2005

Nova Scotia Business Incorporated (the "Corporation") is a corporation, wholly-owned by the Province of Nova Scotia with an independent Board of Directors. The Corporation was established pursuant to the Nova Scotia Business Incorporated Act, Chapter 30 of the Acts of Nova Scotia, 2000. The Corporation's mission is to deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia.

1. Summary of significant accounting policies:

(a) Loans receivable:

Loans receivable are recorded at cost less a general allowance for credit losses equal to 5% of cost. In addition, a specific allowance is recorded if management considers it necessary to reduce the loan to its estimated recoverable amount.

(b) Equity investments:

Equity investments are initially recorded at cost less a general allowance for credit losses equal to 10% of cost. This allowance is immediately recorded to reflect the increased risk associated with equity investments. The investments are reviewed annually for potential declines in value – if a decline is considered to be other than temporary, a specific allowance is recorded.

(c) Industrial parks and malls:

The industrial parks and malls consist of properties held for sale and improved properties consisting of land and land improvements, buildings, wharves and utilities. Land is recorded at the lower of cost and estimated net realizable value. The remaining assets are recorded at cost and amortized on a declining balance basis over their estimated useful lives as follows:

ASSET	BASIS	RATE
Land improvements	Declining balance	5%
Industrial malls and other buildings	Declining balance	5%
Wharves	Declining balance	5%
Utilities	Declining balance	15%

The Department of Transportation and Public Works has operational responsibility for the industrial parks and malls. Certain revenues and expenses associated with the operation of the industrial parks and malls are accounted for by the Department of Transportation and Public Works and are not reflected in these financial statements.

(d) Other assets:

Other assets are recorded at cost less a general allowance for credit losses equal to 5% of cost. In addition, a specific allowance is recorded if management considers it necessary to reduce the asset to its estimated recoverable amount.

(e) Revenue recognition:

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectibility of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized, and any interest income that is accrued is reversed. A loan is considered impaired when there is risk of loss to the Corporation of the full and timely collection of principal and interest; generally, when it is more than three months in arrears.

(f) Allowance for credit losses and provision for payment of guarantees:

As financing is advanced, the Corporation immediately records a general allowance equal to 5-10% of the amount disbursed. In addition, the Corporation provides for possible credit losses on an item-by-item basis by examining such factors as the client's financial condition and the fair value of the underlying security.

The provision for credit losses is partially offset by funding from the Province of Nova Scotia in the form of a Valuation Allowance Grant.

(g) Employee future benefits:

Upon retirement, employees are eligible for a public service award equal to one week's salary per year of service to a maximum of twenty-six years. Management recognizes compensation expense on an accrual basis. The liability for the period prior to NSBI's inception, is recorded on the financial statements of the Province of Nova Scotia.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

2. Fair value of financial instruments:

The carrying value of cash, accrued interest receivable, other receivables, due from the Province of Nova Scotia and accounts payable and accrued liabilities approximate their fair value because of their short-term to maturity.

The fair values of loans receivable approximate their net realizable value.

Equity investments, loan guarantees and other assets represent investments and guarantees in privately held companies, as well as property acquired through foreclosure. Due to the limited amount of comparable market information available, it was not practical to determine the fair value of these assets.

Due to the Province of Nova Scotia is comprised of a series of separate notes, the largest of which has no set terms of repayment. Principal is repaid to the Province as it is collected on the loans receivable financed by this note. Due to the volume of accounts financed by the notes and the uncertainty with respect to timing of future cash flows, it is not practical to determine the fair value of the amount due to the Province of Nova Scotia.

3. Loans receivable:

		2005	2004
(a)	Principal due:		
	Performing loans	$ 119,389	$ 124,003
	Impaired loans	33,332	38,278
		152,721	162,281
	Allowance for credit losses (note 7)	46,652	49,742
		106,069	112,539
	Less current portion	10,892	12,780
		$ 95,177	$ 99,759

Included in the above loans receivable are loans with concessionary terms which have principal amounts outstanding of $614 (2004 – $775) and concessionary allowance of $136 (2004 – $194). The concessionary terms consist of interest free financing.

The concessionary allowance is calculated as the difference between the financing advances and the net present value of the anticipated future repayments at an interest rate similar to the usual established terms of the Corporation.

(b) Principal payments receivable in each of the next five years are as follows:

2006	$ 10,892
2007	8,439
2008	7,337
2009	6,588
2010	4,636

4. Equity investments:

	2005	2004
Common shares	$ 4,434	$ 3,092
Preferred shares	6,592	6,696
Convertible debentures	6,486	4,150
	17,512	13,938
Allowance for credit losses (note 7)	7,130	4,249
	$ 10,382	$ 9,689

One of the convertible debentures, valued at $1 million, matured before year-end. No action has been taken by the Corporation to demand repayment or to exercise the conversion options inherent in the debenture. Management is negotiating with the company to extend the maturity date.

5. Industrial parks and malls:

	Cost	Accumulated amortization	2005 Net book value	2004 Net book value
Land	$ 268	$ —	$ 268	$ 268
Land improvements	1,089	295	794	703
Industrial malls and other buildings	4,866	2,643	2,223	2,705
Utilities	872	329	543	552
Wharves	1,593	1,028	565	595
	$ 8,688	$ 4,295	$ 4,393	$ 4,823

6. Other assets:

	2005	2004
Property acquired through foreclosure, at cost	$ 938	$ 959
Less allowance for losses (note 7)	828	848
	$ 110	$ 111

7. Allowance for credit losses and provision for payment of guarantees:

					2005
	Gross balance outstanding	Specific allowance	General allowance	Total allowance	Net balance outstanding
Loans receivable (note 3)	$ 152,721	$ 41,582	$ 5,070	$ 46,652	$ 106,069
Equity investments (note 4)	17,512	6,302	828	7,130	10,382
Guarantees (note 11)	2,823	2,077		2,077	746
Other assets (note 6)	938	822	6	828	110
	$ 173,994	$ 50,783	$ 5,904	$ 56,687	$ 117,307

					2004
	Gross balance outstanding	Specific allowance	General allowance	Total allowance	Net balance outstanding
Loans receivable (note 3)	$ 162,281	$ 44,319	$ 5,423	$ 49,742	$ 112,539
Equity investments (note 4)	13,938	3,173	1,076	4,249	9,689
Guarantees (note 11)	2,605	1,922	68	1,990	615
Other assets (note 6)	959	842	6	848	111
	$ 179,783	$ 50,256	$ 6,573	$ 56,829	$ 122,954

8. Due to Province of Nova Scotia:

(a) Notes payable to the Province of Nova Scotia are comprised of the following:

			2005	2004
	Year of maturity	Weighted average interest rate	Principal outstanding	Principal outstanding
Note payable 2002-01	2017	—	$ 67,844	$ 78,137
Note payable 2002-02	2021	6.45%	39,031	32,975
Note payable 2003-01	2008	4.85%	2,687	2,869
Note payable 2003-02	2008	4.53%	439	634
Note payable 2003-03	2012	5.02%	322	385
Note payable 2003-04	2014	5.35%	1,051	1,177
Note payable 2003-05	2011	5.44%	1,119	1,060
Note payable 2004-01	2017	4.61%	3,598	—
Note payable 2004-02	2015	4.52%	455	—
			116,546	117,237
Less principal due within one year			11,736	12,481
			$ 104,810	$ 104,756

The principal for note 2002-01 is repayable to the Province when the principal is collected from the loans that are funded by this note. In addition, 80% of the interest received or capitalized on the underlying loans is repayable to the Province.

The remaining notes are repayable in quarterly instalments of principal and interest based on the maturity dates and rates set out above.

(b) Principal payments due in each of the next five years are as follows:

2006	$ 11,736
2007	10,711
2008	10,259
2009	9,669
2010	7,795

9. Share capital:

The Corporation is authorized to issue 100 Class A common shares with a par value of $1 each. At year end, 100 common shares have been issued to the Province of Nova Scotia.

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

10. Commitments:

(a) The Corporation has approved financing of $7,983 for NSBI and $307 for NSBDC portfolios (2004 – $7,064 and $3,630 respectively) that is undisbursed at year-end.

(b) The Corporation administers strategic investments on behalf of the Province of Nova Scotia that permit approved businesses to receive a percentage of payroll taxes paid as a rebate. Expenses incurred by the Corporation are match-funded by the Province of Nova Scotia in the form of a Strategic Investment Grant. As at March 31, 2005, transactions were approved with maximum annual payments over the next seven years of $91.8 million (2004 – $78.6 million) as shown below.

2006	$ 21,399
2007	22,594
2008	19,823
2009	12,017
2010	12,461
2011	3,020
2012	510
	$ 91,824

(c) In one of the Industrial Parks owned by the Corporation, a sewage treatment plant is in operation. The plant operates under license from the Department of Environment and Labour and does not meet current discharge standards. Management estimates an upgrade costing approximately $1.5 million is required in order to meet environmental standards.

11. Contingencies:

(a) Guarantees:

	2005		2004
	Authorized	**Utilized**	Utilized
Bank loans	**$ 2,900**	**$ 2,823**	$ 2,605
Less provision for payment		**2,077**	1,990
		$ 746	$ 615

Bank loan guarantees issued in the amount of $323 (2004 – $445) were demanded by the bank before year-end. These guarantees had a provision for payment of $200 (2004 – $85) recorded in the year against them.

Included in the bank loan guarantees is a guarantee to a US bank in the Canadian dollar amount of nil (2004 – $1,877).

(b) Litigation:

The Corporation is a co-defender with the Province of Nova Scotia and Industrial Estates Limited in a dispute regarding environmental contamination on land previously owned by Industrial Estates Limited. It is assumed that any losses incurred related to this claim will be fully funded by the Province of Nova Scotia.

Counsel is unable to form an opinion at this early date in regard to the likelihood of loss; consequently, no provision for any possible loss has been recorded in these financial statements.

12. Nova Scotia Business Fund:

The Nova Scotia Business Fund (the "Fund") is comprised of investments approved under the direction and management of Nova Scotia Business Incorporated and investments have been transferred from the Nova Scotia Business Development Corporation Fund on November 6, 2001. The following is a summary of the Fund as at March 31.

	2005	**2004**
Assets:		
Nova Scotia Business Incorporated portfolio	**$ 20,184**	$ 13,900
Loan guarantees (note 11)	**2,500**	—
Less allowance for credit losses	**8,257**	1,984
	14,427	11,916
Financing authorized but unadvanced (note 10)	**7,983**	7,064
	22,410	18,980
Nova Scotia Business Development Corporation portfolio	**155,380**	168,100
Loan guarantees (note 11)	**323**	2,605
Less allowance for credit losses	**48,430**	54,845
	107,273	115,860
Financing authorized but unadvanced (note 10)	**307**	3,630
	107,580	119,490
	$ 129,990	$ 138,470
Funding authorized and committed:		
Fund balance authorized, net of write offs	**$ 270,187**	$ 271,592
Less uncommitted balance of fund	**83,510**	76,293
Committed fund balance	**186,677**	195,299
Less allowance for credit losses and payment of guarantees	**56,687**	56,829
	$ 129,990	$ 138,470

13. Credit risk and interest risk:

(a) Credit risk:

Credit risk is the risk that a debtor may not pay amounts owing, thus resulting in a loss. To mitigate this risk, the Corporation has developed the following policies:

Before a loan is approved, a risk assessment is performed on the client. Each loan is designated a risk rating based on the industry and business, quality of management, financial history and projections, other investors' level of financial involvement, ability of the client to access funds elsewhere, and any environmental risks. Application with a high risk rating would warrant a higher interest rate or would not be approved if the level of risk is deemed unacceptable.

Clients are limited to a total of $15 million in financing from Nova Scotia Business Incorporated's Nova Scotia Business Fund. Two clients currently exceed this total; their loans were approved in the Nova Scotia Business Development Corporation Fund and transferred to the Nova Scotia Business Fund via legislation on November 6, 2001. The outstanding amounts for these clients are approximately $46 million and $23 million, respectively (2004 – $46 million and $21 million).

In addition to its regular monitoring procedures, at year-end, management performed an in-depth analysis of accounts in order to assess the Corporation's total exposure to credit and other risk. Factors such as the financial condition of the client were evaluated to determine how risk changed since inception of the loan. Changes in risk are reflected in the carrying value of the loan via the provision for credit losses.

(b) Interest risk:

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. To mitigate this risk, the Corporation matches the repayment timing of amounts borrowed with the repayment timing of financing advanced as closely as practical.

14. Taxes:

The Corporation is not subject to provincial or federal taxes.

15. Supplementary cash information:

Cash is defined as cash and short-term investments.

During the year, cash received for interest income was $7,067 (2004 – $9,997) and cash paid for interest was $10,465 (2004 – $1,680).

16. Related party transactions:

Financing has been advanced to companies which were controlled or otherwise not independent of certain directors of Nova Scotia Business Incorporated at the time of the transactions. These investments totaled $30,243 (2004 – $30,684) and certain of these investments had specific allowances recorded against them totaling $10,286 (2004 – $10,536).

These transactions were carried out in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.

17. Employee pension plan:

Employees of the Company participate in the Public Service Superannuation Fund (the "Plan"), a contributory defined benefit pension plan administered by the Province of Nova Scotia, which provides pension benefits based on length of service and earnings. Contributions to the Plan are required by both the employees and the employer. Total employer contributions for 2005 were $264 (2004 – $237) and are recognized as an expense in the period. The Company is not responsible for any under-funded liability, nor does the Company have any access to any surplus that may arise in this Plan.

18. Comparative figures:

Certain 2004 comparative figures have been reclassified to conform with the financial presentation adopted per the current year.

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

SCHEDULE 1

SCHEDULE OF OPERATING EXPENSES

(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2005, WITH COMPARATIVE FIGURES FOR 2004

	2005	2004
Business development	$ 1,124	$ 970
Legal and audit	98	98
Office expenses	242	216
Other	97	102
Salaries and benefits	4,886	4,640
Telecommunications and technical support	333	238
Travel	502	551
	$ 7,282	$ 6,815

SCHEDULE 2

SCHEDULE OF NOVA SCOTIA BUSINESS FUND EXPENSES

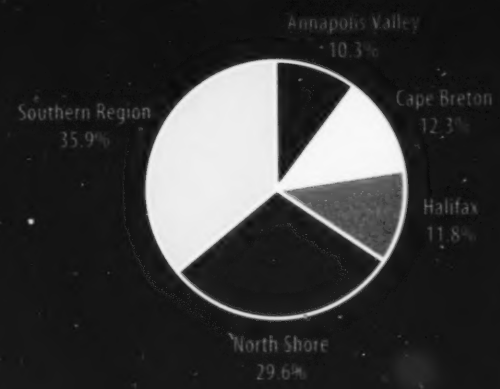
(IN THOUSANDS OF DOLLARS)

YEAR ENDED MARCH 31, 2005, WITH COMPARATIVE FIGURES FOR 2004

	2005	2004
Amortization	$ 229	$ 239
Commissions	65	75
Interest	6,955	8,789
Legal	6	24
Repairs and maintenance	553	320
	$ 7,808	$ 9,447

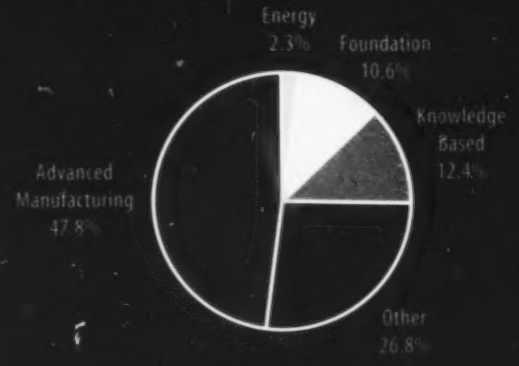
Nova Scotia Business Inc.'s (NSBI) mission is to deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia.

NSBI CLIENTS BY REGION

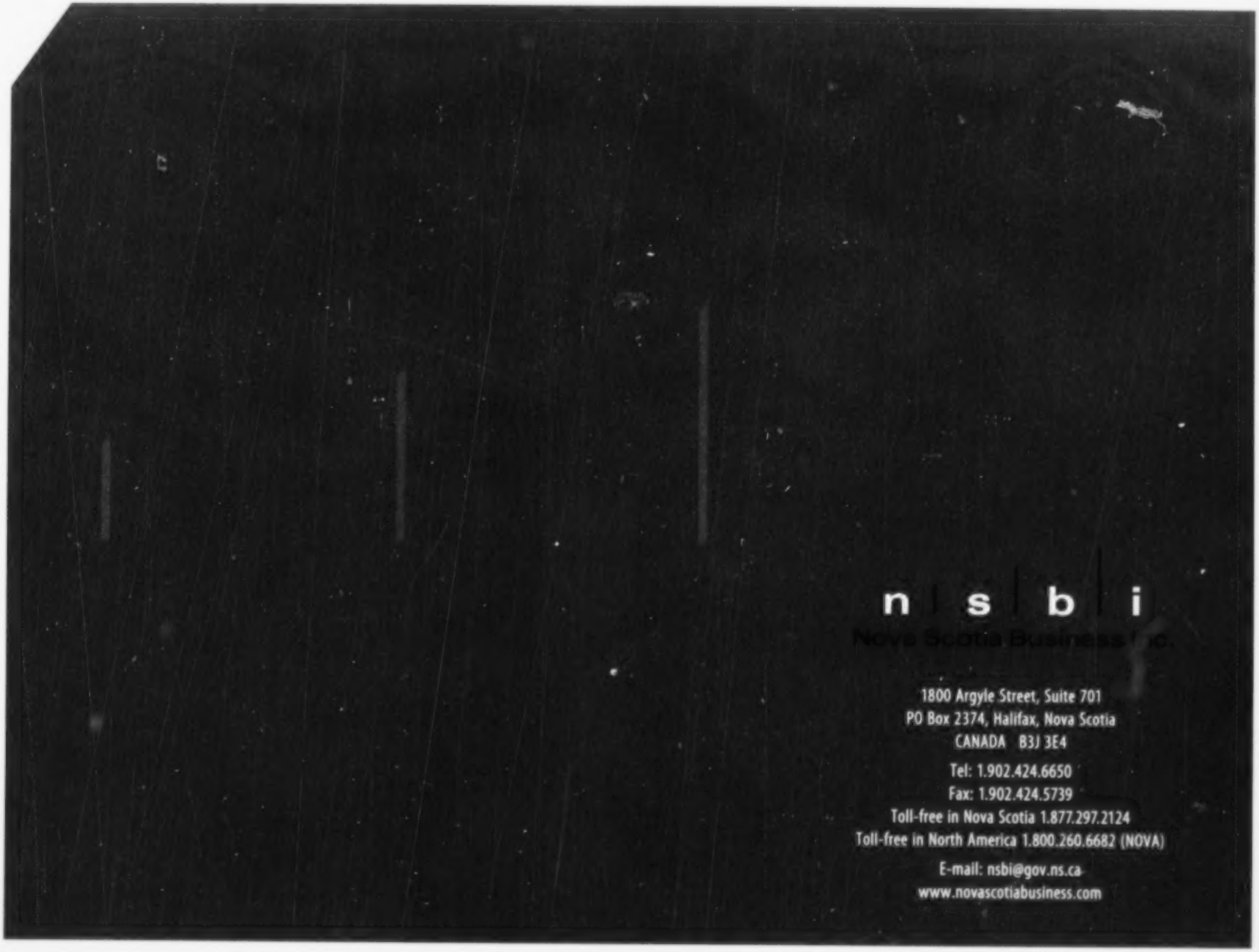


From Sydney to Yarmouth, NSBI provides financial and business advisory services, as well as export development assistance to help companies — large and small — expand business opportunities.

NSBI CLIENTS BY SECTOR



NSBI's business-development activities are focused on sectors that continue to demonstrate growth potential for the province. The majority of NSBI's clients are concentrated in advanced manufacturing and knowledge based industries, including life sciences and information technology. NSBI also supports clients operating in resource-based foundation industries.



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